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PP RUEHBZ RUEH DU RUEHJO RUEHMR RUEHRN
DE RUEH KI #0299/01 0730543
ZNR UUUUU ZZH
P 140543Z MAR 07
FM AMEMBASSY KINSHASA
TO RUEHC/SECSTATE WASHDC PRIORITY 5761
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUCPDO/DEPT OF COMMERCE WASHDC

UNCLAS SECTION 01 OF 02 KINSHASA 000299

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DEPT FOR AF/EPS (JPOTASH)

E.O. 12958: N/A

TAGS: [ETRD](#) [ECON](#) [AGOA](#) [CG](#)

SUBJECT: DRC'S INPUT FOR 2007 PRESIDENT'S REPORT ON AGOA

REF: SECSTATE 22438

1. (U) Post submits the following in response to reftel.

Market-Based Economy/Economic Reform/Trade Barriers

2. (U) The DRC's development of a market-based economy is progressing slowly. The exchange rate has floated freely for four years without significant government intervention, although fluctuations of as much as twenty percent have occurred during periods of political uncertainty, particularly since mid-2006. Private sector development is a key GDRC objective under the newly-installed government, in partnership with international financial institutions. Privatization stalled under the Transitional Government. The IMF's formal Poverty Reduction and Growth Facility Program (PRGF) with the DRC lapsed in March 2006 and an informal Staff-Monitored Program has been in place since, pending negotiation to reestablish the PRGF.

3. (U) The DRC does not have any specific barriers against U.S. trade and investment. The GDRC has ratified key international intellectual property rights (IPR) conventions, but lack of enforcement and a weak judicial system often result in inadequate domestic IPR protection. The GDRC welcomes foreign investment in principle, but it is often difficult and time-consuming to obtain final government project approval. Degraded infrastructure and complicated, opaque taxation schemes discourage investment. The GDRC, however, is working with the World Bank to improve the investment climate. Investment, mining, forestry, and labor codes provide modern legal foundations for doing business in the DRC, but their implementation is uneven. Several multinational mining corporations, including one U.S.-led consortium, are developing large-scale projects, with planned investments totaling billions of dollars over the next ten years. The U.S.-DRC Bilateral Investment Treaty (BIT) governs investment and trade disputes, although the DRC has yet to pay any arbitration awards in favor of American companies.

Political Pluralism/Rule of Law/Anti-Corruption

4. (U) Political pluralism exists without government interference. The multiplicity of parties in the Government risks limiting productive dialogue, although parties have aligned themselves into large, loose coalitions. Representatives from several parties fill legislative and executive branch positions. A variety of print and electronic news sources provide a broad range of political debate. Around 17 million Congolese voted in the July 30, 2006 round of presidential and National Assembly elections. The second round on October 29, 2006 included provincial elections and a run-off between two presidential candidates. The National and Provincial Assemblies have begun meeting, and the Senate is expected to begin work before the end of March.

5. (U) The international community continues to support and

encourage the GDRC to focus on implementing the rule of law and on combating corruption, and President Kabila and Prime Minister Gizenga have explicitly stated that combating corruption is among the new government's highest priorities. The GDRC is working with bilateral and multilateral donors to develop capacity- building programs for the law enforcement and judicial sectors. The judicial sector is extremely weak, often corrupt, and due process is not regularly afforded, particularly in connection with pre-trial detention. International efforts to provide military and police training are improving the quality of Congolese law enforcement.

¶6. (U) The GDRC suffers from institutionalized corruption, which is difficult to overcome because of inadequate civil servant salaries and decades of lack of accountability. Multilateral and bilateral donors, including the U.S., fund anti-corruption efforts, as the GDRC has yet to establish its own effective program or system. The newly-formed government, however, has identified anti-corruption activities as a key priority. Donors continue to work with the GDRC to accurately determine the actual number of civil servants and military in an effort to reduce and be able to meet the government's payroll.

Poverty Reduction

¶7. (U) The GDRC has gradually increased its level of pro-poor spending. The GDRC began implementing its Poverty Reduction Strategy (PRSP) in July 2006. The GDRC's USD billion 2006 budget initially allocated about USD 520 million for social spending and poverty reduction programs. The GDRC, however, was forced to reduce that amount after bilateral and multilateral partners postponed interim debt relief and suspended budgetary assistance and support following the March 2006 lapse of the GDRC/IMF PRGF program.

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Labor/Child Labor

¶8. (U) The GDRC generally does not interfere with the activities of the 300-plus unions in the DRC, and it usually respects their right to strike. Unions are not normally influential enough to obtain meaningful concessions from the government or the private sector. An estimated 80 to 90 percent of the Congolese workforce is in the informal sector, and therefore does not benefit from the nominal labor law protection. Many employers do not provide working conditions that meet Western health and safety standards, particularly in the industrial and mining sectors.

¶9. (U) The GDRC has ratified key ILO Conventions against forced and child labor (Conventions 29, 105, 138 and 182). The Labor Code, enacted in 2002, requires that workers be 16 and have completed primary school. However, the GDRC has made few if any meaningful efforts to combat these problems due to the lack of capacity and political will. Hence, child labor persists, particularly in the mining and informal sectors, although NGOs pressure the government and employers on this issue.

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